

Study Guide for Assessment Exam for Finance Majors and Minors  
Revised Fall 2024

The assessment exam is given in the Advanced Financial Management (FINA40153) class. The exit exam counts as 10% of the course grade. Students graduating with a Bachelor degree in Finance should be knowledgeable of the following:

Firm Performance

- Understand agency theory, agency problem, and ways firms can minimize the agency problem
- Explain the goal of a firm and how corporate governance policies influence management's actions to achieve the goal
- Be able to construct a simple income statement and balance sheet
- Calculate the following ratios: profit margin, return on equity, return on assets, EPS, P-E ratio, DuPont equation
- Calculate the firm's capital structure weights
- Calculate the firm's weighted average cost of capital
- Determine the impact of project value on firm value
- Understand why the WACC curve is u-shaped

Time Value of Money

- Understand the concept of time value of money
- Find number of periods or interest rate for lump sum cash flow if given PV and FV
- Calculate PV or FV of a lump sum, an annuity, and an annuity due
- Find PMT, interest rate, or number of payments in annuity or annuity due problem with annual or non-annual payments
- Find the PV, PMT, or interest rate for a perpetuity
- Find PV for a growing perpetuity
- Find the PV or FV of an uneven stream of cash flows.
- Calculate the effective annual rate for an interest rate compounded more than one time per year
- Prepare a loan amortization table
- Understand the effect of time and interest rate on present and future values of a cash flow

## Valuation

- Calculate a project's NPV
- Determine the value and profit of a portfolio containing options
- Understand the impact of stock price, strike price, time to maturity, and volatility on option value
- Calculate the price of a bond with annual or semiannual payments
- Calculate the yield to maturity of a bond
- Understand the impact of time to maturity on changes in bond prices as yield changes
- Calculate the value of common stock using the dividend growth model, market multiples, and firm's free cash flows.
- Calculate the value of common stock with non-constant dividends
- Calculate the expected return of common stock
- Calculate the cost of equity using the Capital Asset Pricing Model
- Know what future contracts are and how they are used in a portfolio

## Risk, diversification, asset pricing

- Determine the profit or loss on a futures contract
- Understand the difference between long and short positions on securities
- Know the difference between a passive and an active portfolio
- Explain the benefits of diversification related to portfolio return and risk
- Understand the difference between systematic and unsystematic risk.
- Understand the theories that explain the yield curve (term structure of interest rates)
- Understand why markets are considered to be efficient

## Monetary Policy and Debt and Equity Capital Decisions

- Explain relative riskiness of bonds, preferred stock, common stock relative to claims on assets and claims on income
- Understand how to determine if the firm is operating at its optimal capital structure
- Understand the effects of debt on firm value, cost of debt, and cost of equity
- Explain the purpose of financial systems
- Understand how the yield curve is developed and what it tells an investor.
- Understand the concept of purchasing power.
- Explain bond duration
- Understand company dividend policies and practices.